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**Testimony presented on behalf of the
Connecticut Chapter of the Appraisal Institute
Before the Joint Committee on General Laws**

On

**Proposed Senate Bill 303 – An Act Concerning
Real Estate Appraisers**

Presented by

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Good afternoon, Co-chair Colapietro, Co-Chair Shapiro, Members of the Joint Committee on General Law. My name is Ralph Biondi, and I am a Certified General Appraiser with the firm of Biondi & Rosengrant in Waterbury. I am here today on behalf of the Connecticut Chapter of the Appraisal Institute to testify on Proposed Bill 303.

The Appraisal Institute is a global membership association of professional real estate appraisers with nearly 25,000 members throughout the world, including almost 400 in Connecticut. Organized in 1932, its mission is to support and advance its members as the choice for real estate solutions and uphold professional credentials, standards of professional practice and ethics consistent with the public good. Members of the Appraisal Institute benefit from an array of professional education and advocacy programs, and may hold the prestigious MAI, SRPA and SRA designations.

We appreciate the committee holding this hearing on Proposed Bill 303, An Act Concerning Real Estate Appraisers. If enacted as it has been proposed, Proposed Bill 303 would prohibit the payment of any fee in connection with a real estate appraisal to anyone other than a licensed or certified appraiser. In addition, the legislation would prohibit appraisers from sharing their fees with anyone other than another licensed or certified appraiser.

While not explicitly stated in the legislation, the impact of Proposed Bill 303 would be to prohibit an appraisal management company from taking any portion of a fee that is paid by a lender or a borrower for a real estate appraisal.

Appraisal management companies (AMC) are business entities that administer networks of independent appraisers to fulfill real estate appraisal assignments on behalf of lenders. AMCs are third-party brokers of appraisal services that sit between banks and other mortgage originators and licensed or certified appraisers who perform real estate appraisals. The AMC recruits, qualifies, verifies licensure, negotiates fees and service level expectations with a network of third-party appraisers. In some cases, the AMC is also responsible for many tasks associated with the collateral valuation process, including appraisal review, quality control, market value dispute resolution, warranty administration, and record retention. Upon the completion of an appraisal, the appraisal management company is responsible for forwarding the report to the lender.

While appraisal management companies have been in existence for many years, the industry has experienced growth as a result of outsourcing by financial institutions and the perceived need for an independent third-party in the appraisal process in order to ensure that an appraiser is not subject to outside coercion or influence. The advent of the appraisal management industry has resulted in some problems. The issue of biggest

concern to appraisers are AMCs that take an exorbitant percentage of the fee paid to the lender and/or the borrower for the appraisal as an "appraisal management fee". The current business model used by many AMCs involves a "cramdown" of appraisal fees to boost profits. In addition, there has been at least one instance of an appraiser losing his license to revocation and forming an appraisal management company outside the specter of a state appraisal regulatory agency. These are just a few of the problems that independent appraisers are facing from appraisal management companies, and we share many of these concerns. There are many other problems with AMCs!

To date, appraisal management companies are not required to register with any government agency, and are not subject to any state or federal regulation. In fact, the appraisal management company is the only entity in the appraisal process that is not subject to licensing or regulation by any government agency, or any laws or regulations specific to their activity.

The Connecticut Chapter of the Appraisal Institute appreciates the focus that Proposed Bill 303 has brought on the regulation of appraisal management companies. While we do not necessarily oppose the intent of the bill, we do not believe that the bill should be enacted as it has been proposed. In effect, Proposed Bill 303 will make appraisal management companies an unviable business enterprise in this state. While the Connecticut Chapter of the Appraisal Institute certainly has some concerns



with the operation of appraisal management companies in this state, and would prefer that they were not part of the appraisal process, we do not believe that it is in the best interests of the citizens of Connecticut for the General Assembly to legislate any industry out of business.

Instead, the Connecticut Chapter of the Appraisal Institute would like for the General Law Committee to consider enacting more comprehensive legislation that would provide a reasonable level of regulation for appraisal management companies operating in this state, and would require that all AMCs register with the state on an annual basis.

In order to help the General Law Committee to accomplish this goal, the Appraisal Institute (AI), American Society of Appraisers (ASA), American Society of Farm Managers and Rural Appraisers (ASFMRA), and the National Association of Independent Fee Appraisers (NAIFA) have jointly drafted model legislation that would enact a registration and regulatory program for appraisal management companies under the oversight of the Connecticut Real Estate Appraisal Commission and administered by the Department of Consumer Protection.

The language contained in the AI-ASA-ASFMRA-NAIFA model is being used by Representative John Harkins as the basis for comprehensive AMC registration and regulation legislation that he is drafting (not Proposed Bill 5392 that was previously considered by this Committee, but new



legislation). It is likely that Rep. Harkins' new legislation will be introduced in the near future, and we look forward to this committee holding a hearing on that bill at the appropriate time. However, we would like for the General Law Committee to also consider utilizing language similar to that contained in the AI-ASA-ASFMRA-NAIFA model as a substitute for the existing language outlined in Proposed Bill 303, when this legislation is drafted as a "Committee Bill".

We appreciate the opportunity to be here today to testify on Proposed Bill 303. The Connecticut Chapter of the Appraisal Institute looks forward to working with Senator Duff, Representative Harkins and the members of the Joint Committee on General Law to pass legislation that would enact a comprehensive registration and regulatory program for appraisal management companies operating in the State of Connecticut.

I would be happy to answer any questions from the Committee.